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# Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 EB-08 /021 W
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R 221352Z DEC 77
FM AMEMBASSY PRAGUE
TO SECSTATE WASHDC 4368
INFO USDOC WASHDC
USMISSION USNATO
AMEMBASSY BELGRADE
AMEMBASSY BERLIN
AMEMBASSY BUCHAREST
AMEMBASSY BUDAPEST
AMEMBASSY MOSCOW
AMEMBASSY SOFIA
AMEMBASSY WARSAW

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E.O. 11652: NA
TAGS: EALR, EGEN, EIND, ETRD, CZ
SUBJECT: INDUSTRIAL RESTRUCTURING "PHASE OUT" PROGRAM IN CZECHOSLOVAKIA

1. DEC 10 ARTICLE IN PRAVDA (BRATISLAVA) PROVIDES RARE SPECIFICS ON HOW GOC HOPES TO RESTRUCTURE LOCAL INDUSTRY BY REDUCING PRODUCT RANGE AND SHIFTING FACTORS OF PRODUCTION FROM LESS TO MORE COMPETITIVE LINES. ARTICLE NOTES THAT PREVIOUS EFFORTS ALONG THESE LINES HAVE NOT MAINTAINED "DESIRABLE PACE" BECAUSE OF STRONG RESISTANCE OF MANUFACTURERS AND LOCAL AUTHORITIES. IT STATES THAT, DURING FIRST STAGE OF CURRENT "PHASE-OUT" PROGRAM, MINISTRIES OF GENERAL ENGINEERING AND OF METALLURGY AND HEAVY ENGINEERING PLAN TO SHIFT 4,000 AND 3,400 WORKERS RESPECTIVELY INTO PRODUCTION OF DIFFERENT ITEMS. MINISTRIES ARE PLANNING EVEN GREATER CHANGES DURING SECOND STAGE (NO TIME-FRAME CITED).
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2. ARTICLE SAYS THATPRODUCTION OF FOLLOWING ITEMS WILL BE PHASED OUT: V3S MEDIUM-SIZE TRUCKS, GAS RANGES AND HEATERS, CROP-DUSTER AIRPLANES, MINE LOCOMOTIVES NOW MADE AT HEAVY ENGINEERING WORKS IN MARTIN, KITCHEN APPLIANCES AND LIGHTING FIXTURES NOW MADE AT STROJOSMALT IN BRATISLAVA, TROLLEY BUSES, CANE SUGAR MILL MACHINERY AND TOBACCO PROCESSING MACHINES. PRODUCTIVE RESOURCES

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RELEASED BY THIS "PHASE OUT" WILL BE DIVERTED TO FOLLOWING PRODUCT LINES, AMONG OTHERS: LIGHT-DUTY TRUCKS, RUBBER PRESSES, METAL-ROLLING EQUIPMENT AND NUCLEAR POWER EQUIPMENT. CSSR WILL HENCEFORTH IMPORT FROM CEMA PARTNERS THOSE ITEMS WHICH WILL BE NO LONGER BE PRODUCED LOCALLY.

3. PROGRAM SHOULD AFFECT PRINCIPALLY INDUSTRIES WHERE OUTPUT HAS HAD TO BE SUPPLEMENTED BY SIZEABLE IMPORTS TO MEET DOMESTIC DEMAND AND WHERE PRODUCTION COSTS HAVE BEEN INCREASING AND LABOR EFFICIENCY DECREASING. SPECIFIC TASKS HAVE BEEN ASSIGNED TO ENGINEERING MINISTRIES AND OTHER CENTRAL AUTHORITIES TO CARRY ON PHASE-OUT PROGRAMS IN COOPERATION WITH THEIR SUBORDINATE MANUFACTURING ECONOMIC UNITS.

4. COMMENT: AS LOCAL PRESS FREQUENTLY POINTS OUT, ONE OF MAJOR PROBLEMS AFFLICTING CZECHOSLOVAK INDUSTRY IS ITS OVERLY DIVERSIFIED PRODUCT RANGE, WHICH LIMITS SCALE ECONOMIES AND RESTRICTS OTHER BENEFITS OF SPECIALIZATION. HOWEVER, SPECIFICS TO HOW THIS RESTRUCTURING WILL BE CARRIED OUT HAVE BEEN SCARCE. WHILE FEW WOULD DISPUTE NEED FOR SHIFTING CZECHOSLOVAKIA'S SCARCE RESOURCES (PARTICULARLY LABOR) FROM INEFFICIENT PRODUCTION TO AREAS WHERE COUNTRY ENJOYS A COMPARATIVE ADVANTAGE, PROSPECTS FOR SIGNIFICANT SUCCESS ARE DEBATABLE. PRAVDA ARTICLE IMPLIES THAT RESISTANCE TO "PHASE-OUT" PROGRAM IS VERY STRONG (A PHENOMENON COMMON IN NON-COMMUNIST COUNTRIES AS WELL) BUT AFFIRMS THAT GOC MINISTRIES HAVE STRONGLY ENDORSED THIS PROGRAM. IN ADDITION TO LIMITED OFFICIAL USE

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OVERCOMING VESTED PAROCHIAL INTERESTS WITHIN CZECHOSLOVAKIA, GOC WILL HAVE TO CONTEND WITH PRESSURES FROM CEMA TRADING PARTNERS WHO FEAR THAT, IF CZECHOSLOVAKIA CEASES TO PRODUCE ITEMS THEY NEED, THEY WILL HAVE TO IMPORT THEM FOR HARD CURRENCY IN FUTURE.
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# Message Attributes

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**Disposition History:** n/a
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**Original Handling Restrictions:** n/a
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**To:** STATE
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**Review Markings:**
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